

Explanatory document on the Annual Implementation Report 2022 (AIR) for the operational programme “Growth and Employment” in line with comments from the European Commission¹

Subject: Observations related to Annual Implementation Report 2022, Article 50(7) and Article 50(8) of Regulation (EU) No 1303/2013

No	EC's comment	Explanations by the Managing Authority (MA)	Corrected AIR section/subsection
1.	Please correct reporting by reporting the two FI (Aizdevumu garantijas (REACT); MVU aizdevumi (REACT) currently reported under Priority 3. ReactEU are programmed under a separate Priority 13. Reporting on FI should be per priority axis, even if REACT EU resources contribute to an existing FI. In SFC2014 in section 8, a new priority axis should be opened to report all the information in relation to the use of ReactEU ERDF for the FI (including FoF level for the amount of REACT EU) in question. Please use exactly the same name of financial instrument when reporting it in ReactEU axis when such instrument receives contribution from ReactEU resources. This is important to be clear that it is the same FI receiving contribution from ReactEU priority.	Corrections were made to the report in SFC2014 according to the instructions.	8 “REPORT ON THE IMPLEMENTATION OF FINANCIAL INSTRUMENTS”
2.	Given that reporting for ReactEU is not correct in section 8, the amounts committed in the funding agreement are not consistent with the amount of ‘total eligible cost of selected project’ in Table 7. Please revise the reported data in section 8 according to the point 1 above to match the data in Table 7.	See point 1.	8 “REPORT ON THE IMPLEMENTATION OF FINANCIAL INSTRUMENTS”
3.	For the following 9 funds (Aizdevumu garantijas (REACT); Mikro aizdevumi un starta aizdevumi; MVU aizdevumi (REACT); Riska kapitāls Izaugsmes kapitāls ZGI-4; Tehnoloģiju akselerators Buildit Latvia Pre-Seed Fund; Tehnoloģiju akselerators Buildit Latvia Seed Fund; Tehnoloģiju akselerators Commercialization Reactor Pre-seed Fund; Tehnoloģiju akselerators Commercialization Reactor Seed Fund; Tehnoloģiju akselerators Overkill Ventures Fund II) the amount of ERDF committed but not paid is above 25%. Please clarify whether the remaining committed resources will be paid to the FI and used for eligible expenditure.	No corrections to the report necessary. 3. and 4. The financial recipient (hereinafter - Altum) has committed to investing all the program funding allocated to the project, i.e., issue loans, loan guarantees to final recipients and provide equity investments. Delay can be explained with that Altum received ReactEU financing only on 16.09.2022. and financial intermediary technology accelerators and venture capital funds started to work in 2018, therefore there is a lag in investments compared to other direct financial instruments as mentioned funds were started later. Nevertheless, forecasts show that all the remaining amounts will be used by the end of the programming period. At the moment SME loans are particularly successful with investments of ReactEU financing. Additional information:	-

¹ EC letter Nr. Ares(2023)4600449 of 03.07.2023.

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		<p>In the case of venture capital funds, the ERDF funding allocated to each intermediary is indicative as there is additional allocation of funding from repayments. That is investments are initially financed from ERDF, then from repayments (the available ERDF funding for the implementation of the venture capital is EUR 30.58 million, but the total amount of capital investments signed by Altum in the venture capital funds amounts to around EUR 51.8 million), which means that each venture capital fund's ERDF financing (investment share in the Funds signed by Altum) will be adjusted taking into account the results of each fund, respectively, whichever of the funds will invest in the final recipient sooner and submit a request for contribution to Altum, will be included as bigger attributed/partially attributed to the ERDF. In the cases of financial intermediary Technology Accelerator Funds Buildit Latvia Pre-Seed Fund, Buildit Latvia Seed Fund, Commercialization Reactor Pre-seed Fund, the total amount of signed capital investments was increased in the second half of 2022 therefore investments from the increased part started later.</p>	
4.	<p>There are 8 FI (Aizdevumu garantijas (REACT); MVU aizdevumi; MVU aizdevumi (REACT); Riska kapitāls Izaugsmes kapitāls ZGI-4; Tehnoloģiju akselerators Buildit Latvia Pre-Seed Fund; Tehnoloģiju akselerators Commercialization Reactor Pre-seed Fund; Tehnoloģiju akselerators Overkill Ventures Fund I; DME finanšu instruments (REACT)) with the absorption of less than 70% of the ERDF amounts paid to FI and disbursed to final recipients. Will the remaining amounts in FI be used by the end of the eligibility period?</p>	<p>No corrections to the report necessary. See point 3.</p>	-
5.	<p>For the FI "DME finanšu instruments" the amount of ERDF paid to final recipients is higher by EUR1 207 983.61 than the amount of ERDF resources paid to the FI. Please verify the amounts, given that normally amounts of ERDF cannot be disbursed if they are not available in the FI.</p>	<p>An error corrected. 2,5 million ERDF paid to the FI were reported not in ERDF instrument but in REACT EU instrument. Corrections were made to the report in SFC2014 - the mentioned financing was entered in ERDF instrument.</p>	8 "REPORT ON THE IMPLEMENTATION OF FINANCIAL INSTRUMENTS"
6.	<p>For FI in Priority 13 "DME finanšu instruments (REACT)" there is no progress reported and there are no MCF. The funding agreement was signed in the beginning of 2022 and the entire amount committed has been paid to FI. Please verify with the MA, the data accuracy, whether the reported amounts are correct and whether the FI will be able to use all the available resources for eligible expenditure by the end of the eligibility period.</p>	<p>No corrections to the report necessary. Altum has committed to invest all of the project funding and forecasts show that another 10 million additional financing to program could be needed for investments in DME FI.</p>	-

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7.	For the FI "Tehnoloģiju akselerators Overkill Ventures Fund I" which is an equity instrument, there is no reporting about the public/private co-financing attracted which is unusual for an equity instrument. Please verify if the data, including on leverage effects are recorded correctly.	No corrections to the report necessary. FI "Tehnoloģiju akselerators Overkill Ventures Fund I" is pre-seed investment fund and was established with 100% ERDF financing. Therefore, it can be verified that "Tehnoloģiju akselerators Overkill Ventures Fund I" does not have other members with private funding. Leverage effect nationally is determined at the level of activity 3.1.2.2 "Tehnoloģiju akselerators" which includes both pre-seed and seed funds, and sets the leverage for pre-seed and seed investments together at 1.26. It is expected that pre-seed investments leverage will not meet the target, but target value will be compensated with seed investments.	-
8.	For the FI "Tehnoloģiju akselerators Buildit Latvia Pre-Seed Fund" and "Tehnoloģiju akselerators Commercialization Reactor Pre-seed Fund", which are equity instruments, national private co-financing consists of EUR 1 each. Please verify if the data, including on leverage effects are recorded correctly.	No corrections to the report necessary. The aforementioned private financing in the amount of EUR 1 results from the fact that the agreements of the Technology Accelerators Pre-Seed Fund provide for the Fund's total subscribed capital investment, by signing the Agreement, the Partner (a company founded within the Fund) undertakes to invest in the Fund as a Partner's subscribed capital investment 1 EUR. According to the Commercial Law of the Republic of Latvia, a fund established as a commercial company cannot be established if all investors, including a full partner (fund manager), do not make contributions. In the specific case, a minimum investment threshold of one euro was set in the pre-seed fund to ensure the creation of the fund.	-
9.	We note that for the fund managers of the following 5 FI (MVU aizdevumi; MVU aizdevumi (REACT); Riska kapitāls Imprimatur Seed Fund 2; Riska kapitāls Imprimatur Venture Fund 2; DME finanšu instruments (REACT)) the management costs and fees are zero. Please check if information accurate. What is the agreement with these fund managers concerning the remuneration?	No corrections to the report necessary. For SME loans and SME loans (REACT) Altum management costs are covered from the repaid public funding.	-
10.	For the FI "Aizdevumu garantijas" we note that EUR 4,202,370.63 have been reported as 'gains, other earnings and yields'. If the amount includes released guarantees, please report them in the data field 36.1 "capital repayments".	No corrections to the report necessary. As of the end of 2022, guarantee funding in this program had not been released yet. The stated amount is the Guarantee premium/other income and is therefore indicated in the report in field 36.2.	-
11.	For the following FIs "Riska kapitāls Imprimatur Seed Fund 2" and "Riska kapitāls Imprimatur Venture Fund 2". In SFC there is information only about the OP amounts committed and the set-up of the fund. We understand the FI is not operational since 2019, please delete from the report the amounts committed if there was no implementation in these FI	FIs "Riska kapitāls Imprimatur Seed Fund 2" and "Riska kapitāls Imprimatur Venture Fund 2" deleted from the report.	8 "REPORT ON THE IMPLEMENTATION OF FINANCIAL INSTRUMENTS"

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	and the programme resources were redirected to other specific funds or returned to the programme.		
12,	Major project 2020LV16CFMP001 Total investment cost should be corrected as they amount to EUR 257 888 753 instead of EUR 161 209 300, which is the amount of Total eligible cost.	The amount of EUR 161 209 300 (23 electric multiple units (EMU) what are included in the project application and project total costs) has been corrected to EUR 257 888 753 (that is total investments for 32 EMU and building and construction of EMU's service center).	10. PROGRESS IN PREPARATION AND IMPLEMENTATION OF MAJOR PROJECTS AND JOINT ACTION PLANS 10.1 Major projects Table 12: Major projects
13.	Indicators for Technical assistance ITP4- to ITP7 show achievements that far surpass the planned targets. Ie Indicator ITP6 shows that number of full time equivalent persons supported from Cohesion Fund technical assistance in 2023 749 instead of planned 197. Please verify if the reported figures use the same methodology as for setting the targets initially.	<p>Reported figures use the same methodology as for setting the targets initially.</p> <p>ITP4, ITP6: The number of employees whose salaries are funded by TA during the period has varied. During different implementation rounds, the institutions co-financed by each Fund have been different, so the number of employees has varied. Accordingly, each EU fund shows the number of MAX employees funded by TA, despite the change of staff between the funds over time (decrease/increase). The methodology for setting targets is unchanged as the value is determined as the maximum number of employees per fund that have been financed by TP.</p> <p>ITP5, ITP7: The number of persons involved in the management of EU funds who would participate in training was indicatively planned in line with the amount of staff whose salaries will be financed by the TA. Accordingly, the actual performance of these indicators has been influenced by the performance of the indicators in each fund. In addition, workers who have been eligible for part-time reimbursement but have participated in training, have been credited as full-time equivalent. Additional training includes staff whose salaries are not funded by TA, but work responsibilities are linked to the administration of EU funds.</p>	3. IMPLEMENTATION OF THE PRIORITY AXIS Table 3A under PA 11 and 12.